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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

24 July 1981

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA : National Intelligence Officer for Warning

FROM : [REDACTED]
Acting National Intelligence Officer for USSR-EE

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SUBJECT : Monthly Warning Assessment: USSR-EE
(Meeting held on 21 July 1981)

1. The Warning meeting, held 21 July, was devoted entirely to the Polish Party Congress and Polish affairs.

Internal Party Affairs

2. The first topic discussed was the impact of the Party Congress on power relationships within the Party. The Congress brought an almost entirely new team into the leadership, with a 90 percent turnover in the Central Committee and only four holdovers out of 15 in the Politburo. Kania came out of the Congress strengthened: two major conservative leaders, Grabski and Zabinski, were not elected to the Politburo, and centrist elements of Kania's persuasion apparently will dominate its membership. Kania, nevertheless, did lose some of his key supporters, and cannot be certain that his lead will be followed. In the future, Kania may be compelled to take positions that are unpopular with one or another faction and undercut his own image as a "moderate".

3. One important development issuing from the Congress is the potential for lack of integration between the provinces and the central party authorities in Warsaw. Out of a total of 49 provincial first secretaries elected, only eight were voted in to the Central Committee; and of the 49, only two held office before last summer. In other words, there is a completely new team of provincial leaders, who are not well represented in the Central Committee. We do not yet know why this situation occurred. As things now stand, there is no mechanism for coordinating the actions of the provincial first secretaries.

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4. The Central Committee elected at the Congress has a "populist" image -- for example, it includes some 80 workers (far more than in the past) -- which may be one factor encouraging better morale within the Party. However, the losers in the election to the Central Committee, both liberals and conservatives, are likely to form various groupings outside the formal party organization and we are likely to see far more politicking going on than at any time in post-war Poland.

5. On the critical issue of the Party Statutes, the Congress approved a maximum two-term limit on tenure of office holding, a prohibition of holding party and government positions simultaneously, and use of the secret ballot with multiple candidacies; but it also strongly emphasized "democratic centralism" -- which has the potential for undermining intra-Party reform. Unable to reach complete agreement on the Statutes, the Congress agreed to transfer their final approval to a conference which will presumably be composed of delegates to the Congress, and which will meet at an undisclosed time.

Regime and the People

6. The Congress was dominated by moderate renewal sentiment, and in this sense was responsive to the popular mood. It elected officials who were probably sufficiently committed to reform to win some popular backing. But, in the preparation for the Congress, and indeed to some extent at the Congress itself, there was an element of vengeance and settling of accounts that could create serious problems for Kania in the future.

7. The Congress did little to deal with the basic problems confronting the regime: the economy, relations with Solidarity, censorship, etc. We do not know what the popular reaction will be to Jaruzelski's half-appeal, half-threat at the Congress to deal forcefully with further upheavals. Kania and Jaruzelski will now have to exact discipline from the population, whereas Solidarity may shift to a more confrontational mode.

8. The Soviets may now be pinning their hopes, in part, on popular disillusionment with the new leadership, although it appears that peoples' expectations of what the Congress would do were in any event not very high. Among participants in the warning meeting there was some disagreement over the degree of political capital available to Kania arising out of his democratic election. Some felt that the new leadership would have substantial room now for maneuvering and cooptation of opponents, but others emphasized the likelihood that this new political capital would be quickly expended in simply coping with immediate crises rather than being invested in long-term solutions to economic problems. There remains vast popular distrust of the leadership's promises, and strong popular feeling that substantive policy issues were neglected by the Congress.

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The Economy

9. The Congress did not take action on such key items as economic reform or adoption of a stabilization program. There was, however, frank discussion at the Congress of the seriousness of the economic crisis in which Poland finds itself: an anticipated 15 percent decline in national income this year, an inflation rate of over 20 percent due to wage escalation, a balance of payments situation that is not improving, and so forth.

10. We expect that when a stabilization program is approved, it will not be a great surprise but will incorporate many of those measures which already have been outlined to Western central bankers: measures to stimulate agriculture, revive trade, reduce investment, impose consumer austerity, undertake some price and wage reforms and other elements of systemic change. Jaruzelski has said that systemic reforms will be considered in the fourth quarter of this year and introduced by the first quarter of 1982.

11. The Poles who talk about the need to combine strengthened centralized control with decentralization, may have in mind something like the Yugoslav model, but it is still too early to know what they will end up doing.

12. The regime has made some progress in agriculture: it has introduced some reform in the state farm sector, and at the same time has tried to improve conditions for private farming.

13. It appears that Poland is going to have a very tough time covering its trade deficit. Poland will have to get new loans just to meet its interest payments and to import spare parts and raw materials. Without such imports, production will decline still further and the economic crisis will deepen. The Soviets have said that they will not come forward with any new hard currency loans at the present time, and Western banks are also adamant against any increased loan exposure in Poland. There is some talk now of an EC rescue package.

14. On the key issue of raising consumer prices, the government realizes that it cannot move without reaching agreement with Solidarity and, conversely Solidarity realizes the unavailability of price adjustments. However, it is unclear whether serious discussions on this issue will be possible before Solidarity's own Congress in the fall.

Soviet Reactions

15. From the Soviet standpoint, the Congress may have turned out better than may have been expected. Nevertheless, the Soviets must see that their own interests suffered:

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- Because of the high turnover in the Central Committee and Politburo, they have lost most of their "own people" in the Polish leadership.
- Kania and Jaruzelski, in whom the Soviets had publicly declared their loss of confidence, gained in strength and popularity.
- The management of the Congress and the elections that took place must have been extremely troubling to the Soviets. The whole process was too spontaneous, and easy Soviet access to the political machinery of the country has been considerably diminished.

16. The Soviets are not reconciled to the changes that have taken place. At the moment they lack any easy options in moving against Kania and Jaruzelski, but they will continue to look for ways of imposing their will rather than simply accommodating themselves to Polish realities. They may believe that labor disputes will provide an opportunity for them to get back into the game and engineer a change of leadership. Currently, though, the Soviets have even less leverage over the Polish regime than they had in early June.

17. It was agreed at the Warning meeting that the Soviets were tremendously frustrated by the political events in Poland; whether this has led to serious conflict within the Soviet leadership over policy toward Poland was much harder to discern. The available evidence is ambiguous and could be interpreted in various ways.

East European Reactions

18. The speeches of East European leaders at the Congress by and large were consonant with previous positions espoused by their regimes -- the East Germans and Czechs, for example, took a very hard line toward the changes in Poland, while the Yugoslavs reiterated their support for Polish autonomy. The Hungarians, however, displayed more alarm over Polish developments than heretofore. There was agreement that it was still too early to assess any spillover effects from the Congress or to reach definitive judgments about the impact of Polish events generally on other East European countries.

Warsaw Pact Activity

19. During the entire period of the Congress there was an absence of Warsaw Pact military activity that might suggest preparation for intervention. There was no increase in readiness and not even the major exercise activity that we expected. Training activity in the Western military districts and in Eastern Europe was normal for this time of year. A Warsaw Pact exercise in Poland may be scheduled for August, in which Polish, Czech and Hungarian forces would take part; but if this occurs, it will probably be a relatively small action.

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21. Soviet military units in Eastern Europe and the Soviet Union continue to be employed for harvest support activity in the USSR as they normally are at this time of year.

22. During August and September, military exercise activity will reach its annual high point

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cc: Chairman, NIC
D/NFAC

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